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NEW APPLICATION ORIGINAL

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Water Company

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE  
APPLICATION OF ARIZONA-  
AMERICAN WATER COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY  
ITS AGUA FRIA WATER DISTRICT, ITS  
ANTHEM WATER DISTRICT AND ITS  
ANTHEM/AGUA FRIA WASTEWATER  
DISTRICT.

DOCKET NO. W-01303A-02-\_\_\_\_\_  
SW-01303A-02-\_\_\_\_\_

**APPLICATION**

Arizona-American Water Company, an Arizona corporation ("Arizona-American" or "the Company"), hereby applies for an order establishing the fair value of Arizona-American's plant and property used for the provision of public utility service by the Company's Anthem water district, its Agua Fria water district and its Anthem/Agua Fria wastewater district (collectively, "the Districts") and, based on such fair value, approving permanent rates and charges for utility service provided by each of the Districts designed to produce a fair return thereon. In support thereof, Arizona-American states as follows:

1. Arizona-American is a public service corporation engaged in providing water and wastewater utility services in portions of Maricopa, Mohave and Santa Cruz Counties, Arizona, pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission (the "Commission") to Arizona-American and its

1 predecessors in interest. At the present time, the Company provides utility service to  
2 approximately 115,000 customers in Arizona.

3 2. The Company's central business office is located at 19820 North Seventh  
4 Street, Suite 201, Phoenix, Arizona 85024, and its telephone number is (623) 445-2400.  
5 The Company's President and primary management contact is Ray L. Jones.

6 3. The persons responsible for overseeing and directing the conduct of this rate  
7 application are B. Kent Turner and David P. Stephenson. Mr. Turner is the Company's  
8 Vice President and Treasurer as well as the Vice President-Finance and Chief Financial  
9 Officer of the Western Region of American Water Works Service Company, Inc. Mr.  
10 Stephenson is the Assistant Treasurer of Arizona-American as well as the Director of  
11 Rates and Planning of the Western Region of American Water Works Service Company,  
12 Inc. Mr. Turner and Mr. Stephenson's office and mailing addresses are 303 H Street,  
13 Suite 250, Chula Vista, California 90910. Mr. Stephenson's telephone number is (619)  
14 409-7712; his telecopier number is (619) 409-7701. **All discovery, data requests and**  
15 **other requests for information concerning this Application should be directed to Mr.**  
16 **Stephenson, with a copy to undersigned counsel for the Company.**

17 4. In this Application, the Company seeks a determination of the current, fair  
18 value of its property devoted to public service and approval of permanent adjustments to  
19 its rates and charges for utility service based thereon for each of the Districts.

20 5. The Anthem water district presently serves approximately 3,270 customers  
21 in the Anthem development, located north of Phoenix in Maricopa County. At present,  
22 the Agua Fria water district serves approximately 13,000 customers in an area located in  
23 the western portion of the Phoenix metropolitan area, also in Maricopa County. The  
24 Anthem/Agua Fria water district presently serves approximately 2,500 customers in the  
25 Anthem development, and in the future will serve customers in other areas in the western  
26 portion of the Phoenix metropolitan area.

1           6.     The Agua Fria water districts' present rates and charges for utility service  
2     were approved by the Commission in Decision No. 60172 (May 7, 1997). The test year  
3     used in that proceeding was the 12-month period ending March 31, 1995. Thus, this is the  
4     first general increase in rates and charges requested for the Agua Fria water district since  
5     that district's existing rates and charges became effective on May 1, 1997. The present  
6     rates and charges for the Anthem water district and the Anthem/Agua Fria wastewater  
7     district were approved in conjunction with the issuance of a certificate of public  
8     convenience and necessity covering the Anthem development in Decision No. 60975  
9     (June 15, 1998). Neither of these districts has filed a general rate application.

10           7.     Arizona-American maintains that revenues from the Districts' utility  
11     operations are presently inadequate to provide the Company a fair rate of return on the fair  
12     value of its utility plant and property devoted to public service. The Company's rate base  
13     has increased substantially since the current rates and charges were approved, and the  
14     Company is annually adding additional utility plant to each of the Districts in order to  
15     ensure safe and reliable utility service to its customers. These increases in the Company's  
16     fair value rate base, together with increases in certain expenses and changes in  
17     circumstances since the test year in the prior rate proceeding, have caused the revenues  
18     produced by the current rates and charges for service to become inadequate to meet  
19     operating expenses and to provide a reasonable rate of return. Therefore, the Company  
20     requests that certain adjustments to its rates and charges for utility service furnished by the  
21     Districts be approved by the Commission so that the Company may earn a just and  
22     reasonable rate of return on the fair value of its property.

23           8.     Filed concurrently herewith as separately bound exhibits are the schedules  
24     required pursuant to A.A.C. R14-2-103 for the rate applications by Class "A" water and  
25     wastewater utilities, with the exception of the schedules labeled "G" (cost of service  
26     analysis). The latter schedules have been omitted because the Company does not propose

1 to change its rate design, including the allocation of the revenue requirement between  
2 customer types from that approved by the Commission when it established the Company's  
3 current rates for the Districts. The test year utilized by the Company in connection with  
4 the preparation of such schedules is the 12-month period that ended December 31, 2001.  
5 The Company requests that the Commission utilize such test year in connection with this  
6 Application, with appropriate adjustments for utility plant that has been completed and  
7 placed in service to serve existing customers by December 31, 2002, and appropriate  
8 adjustments to the Company's operating expenses in order to obtain a normal or more  
9 realistic relationship between revenues, expenses and rate base during the period in which  
10 the rates established in this proceeding are in effect.

11 9. During the test year, the Company's adjusted gross revenues for the Anthem  
12 water district were \$4,040,805, the adjusted gross revenues for the Agua Fria water  
13 district were \$6,186,037, and the adjusted gross revenues for the Anthem/Agua Fria  
14 wastewater district were \$1,866,546. The adjusted operating income for the Anthem  
15 water district was \$577,515, the adjusted operating income for the Agua Fria water district  
16 was \$1,215,777, and the adjusted operating income for the Anthem/Agua Fria wastewater  
17 district was (\$48,855). The adjusted fair value rate bases are \$9,837,108 for the Anthem  
18 water district, \$19,019,624 for the Agua Fria water district, and \$2,853,742 for the  
19 Anthem/Agua Fria wastewater district. Thus, the rate of return on each district's rate base  
20 during the test year was only 5.87% for the Anthem water district, 6.39% for the Agua  
21 Fria water district, and (1.72)% for the Anthem/Agua Fria wastewater district. The  
22 Company submits that these rates of return are inadequate to allow it to service its debt,  
23 pay a reasonable dividend to its stockholders, maintain a sound credit rating, and enable  
24 Arizona-American to attract additional capital on reasonable and acceptable terms in order  
25 to continue the investment in utility plant necessary to adequately serve its utility  
26 customers in the Districts.

1           10.    The Company is requesting an increase in revenues equal to \$299,082 for  
2   the Anthem water district, \$417,889 for the Agua Fria water district, and \$438,989 for the  
3   Anthem/Agua Fria wastewater district, which constitute increases in revenues of 7.46%,  
4   6.76% and 23.52%, respectively. The adjustments to the Company's rates and charges  
5   that are proposed herein, when fully implemented, will produce a rate of return on the fair  
6   value rate base equal to 7.75% for each of the Districts, which is approximately equal to  
7   interest rates payable on investment-grade utility bonds at the present time.

8           11.    Filed concurrently in support of this Application is the following Direct  
9   Testimony:

- 10           (a)   **David P. Stephenson** (overview of the Company's rate filing, background  
11                   concerning Arizona-American's purchase of Citizens Communications'  
12                   water and wastewater utility assets in Arizona, discussion of various  
13                   adjustments made to actual test period results, discussion of the components  
14                   of the Company's capital structure and discussion of compliance with  
15                   Commission Decision No. 63584 (April 24, 2001));
- 16           (b)   **Robert J. Kuta** (overview of the Districts and discussion of certain post-  
17                   Citizens' acquisition office relocations and staffing changes made by  
18                   Arizona-American);
- 19           (c)   **Blaine Akine** (discussion of post-test year plant additions);
- 20           (d)   **B. Kent Turner** (background on Arizona-American and American Water  
21                   Works Service Company and discussion of services provided to Arizona-  
22                   American);
- 23           (e)   **Thomas J. Bourassa** (discussion of the revenue requirement, including the  
24                   "A" through "F" schedules, development of the rate base and income  
25                   statement adjustments);
- 26           (f)   **Thomas M. Zepp** (cost of equity capital and related issues); and

1 (g) **Ronald L. Kozoman** (proposed rates, including the "H" schedules, and  
2 discussion of the effects of the proposed rates on customers' bills,).

3 This direct testimony is contained in a separately bound volume filed with this  
4 Application.

5 WHEREFORE, the Company requests the following relief:

6 A. That the Commission, upon proper notice and at the earliest possible time,  
7 conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of  
8 Arizona-American's utility plant and property devoted to public service in the Company's  
9 Anthem water district, the Agua Fria water district, and the Anthem/Agua Fria wastewater  
10 district;

11 B. Based upon such determinations, that the Commission approve permanent  
12 adjustments to the rates and charges for utility service provided by each of the Districts, as  
13 proposed by the Company herein, or approve such other rates and charges as will produce  
14 a just and reasonable rate of return on the fair value of the Company's utility plant and  
15 property for the Districts; and

16 C. That the Commission authorize such other and further relief as may be  
17 appropriate to ensure that the Company's Anthem water district, its Agua Fria water  
18 district, and its Anthem/Agua Fria wastewater district have an opportunity to earn a just  
19 and reasonable return on the fair value of their utility plant and property and as may  
20 otherwise be required under Arizona law.

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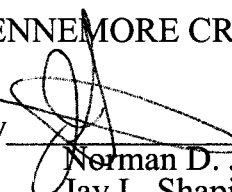
25 ...

26 ...

1 RESPECTFULLY SUBMITTED this 22nd day of November, 2002.

2 FENNEMORE CRAIG

3  
4 By

  
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3003 North Central Avenue  
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Phoenix, Arizona 85012  
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Water Company

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6  
7 ORIGINAL and fifteen (15) copies of the  
8 foregoing, together with the separately bound  
9 schedules and direct testimony supporting  
10 this application, were delivered  
11 this 22<sup>nd</sup> day of November, 2002, to:

12 Docketing Supervisor  
13 Docket Control Division  
14 Arizona Corporation Commission  
15 1200 W. Washington St.  
16 Phoenix, AZ 85007

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